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Life cycle of a net-leased property

Cline, Leonard A. Real Estate Review. New York: Fall 1997.Vol.27, Iss. 3; pg. 34, 5 pgs

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Abstract (Document Summary)

In 1954, the owners of a construction business that specialized in building local chain store properties were approached by W.P. Jones and Company (WPJ). WPJ's real estate department had assembled a 13,000 square-foot site in the downtown area, large enough for the store that it wanted to build. WPJ informed the builders that it was willing to accept a "net, net, net" lease for the to-be-built store. Because WPJ owned the land, the developers had to accept WPJ's terms and their formula for computing rent. WPJ signed a 10-year plus lease with two 5-year options for the same rent as the initial term. The lease did not provide for percentage rent or rent adjustment of any type. The mortgage lender was comfortable with WPJ's high credit rating and the potential long-term viability of central shopping areas like this one. Not only was the insurance company willing to grant the developers a nonrecourse loan, but it also amortized the loan over a 30-year period, with a balloon principal payment at the end of 20 years. The benefits and disadvantages to each of the 3 parties to the transaction are discussed.

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FIXED-RATE MORTGAGE STILL POPULAR

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People:	Copley, Michael H, Thurman, Tom, McEwen, Phil
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Abstract (Document Summary)

1 Conventional 30-year mortgages still capture the fancy of most home buyers, but 15-year mortgages are a smart alternative for many. The total cost of a new house can be almost halved by buyers who are willing to spend a little more each month to cut 15 years off their mortgage. Along these same lines of thinking, some buyers have also turned to biweekly mortgage payments to speed up the equity process in their home.

2 Down payments are "a bigger consideration now than a year ago because of PMI (private mortgage insurance)," [Michael H. Copley] said. He said that the first year premium for PMI on a $100,000 30-year fixed mortgage is $1,000 with a 95 percent loan. "Someone who puts more money down can save some money on a monthly basis," he pointed out. Buyers who put down 20 percent or more do not have to pay PMI, which can be an important consideration, he said.

3 Ms. [Terri Soloman] said there is also interest in 15 year mortgages since "the rates are down so they can qualify for more payment." Most buyers come in and say they want a fixed rate mortgage, she said. The advantages of a government insured mortgage, however, include assumability and qualifying ratios are higher than on conventioanl mortgages so the buyer can purchase more house.

Full Text (1118 words)

FIXED-RATE MORTGAGE STILL POPULAR

Edition: City

Memo: (ljc) Special Supplement: New Homes Magazine

The fixed-rate mortgage remains ever popular in today's climate of lower interest rates.

With mortgage interest rates hovering around 10 percent, the lowest rates home buyers have seen in years, fixed rate mortgages are a sure bet against rising rates.

But although the fixed-rate mortgage has edged out adjustable rates for the moment, ARMS are still popular with many buyers who are seeking to maximize their house purchase today in hopes of a rising income tomorrow.

Conventional 30-year mortgages still capture the fancy of most home buyers, but 15-year mortgages are a smart alternative for many. The total cost of a new house can be almost halved by buyers who are willing to spend a little more each month to cut 15 years off their mortgage. Along these same lines of thinking, some buyers have also turned to biweekly mortgage payments to speed up the equity process in their home.

Whether fixed or adjustable, 15 year or 30 year terms, the dream of owning a house or moving into a more desirable house is becoming a reality for many. With lowered interest rates, business should continue to be "booming" for real estate agents and mortgage financiers this spring if current interest rates hold fairly steady. That's good news for everyone: buyers, sellers and

the real estate industry.

Michael H. Copley, senior area sales manager, Citicorp Financial Inc.:

"Everyone's asking about the fixed rate mortgage. That's typical of today's mortgage environment."

But even with lowered interest rates there is still interest in adjustable rate mortgages, Copley said. "There's still a demand for the ARM product. It allows people to qualify going into a house they might not be able to afford."

He estimates that 60 percent of Citicorp's business is fixed-rate mortgages with the remaining percentage ARMs. "ARMs are far from dead." Of the fixed-rate mortgages, about 80 percent are for 30-year terms and 20 percent are for 15-year terms.

Copley said that his firm has researched the possibility of offering biweekly mortgages and found "it's cumbersome from a systems standpoint and we didn't see any demand in Virginia."

"It's going to be a wild zoo around here this spring," Copley predicts.

"Our bookings are up 30 percent over last year. I think the volume is going to continue to be steady."

Copley said he finds the average consumer "more sophisticated about what the products are and what they want . . . Then there are others who want the house and you try to fit them into the loan. We try to educate those who don't understand and more thoroughly explain to those who do understand. We try to make sure the choice is right."

Down payments are "a bigger consideration now than a year ago because of PMI (private mortgage insurance)," Copley said. He said that the first year premium for PMI on a $100,000 30-year fixed mortgage is $1,000 with a 95 percent loan. "Someone who puts more money down can save some money on a monthly basis," he pointed out. Buyers who put down 20 percent or more do not have to pay PMI, which can be an important consideration, he said.

Tom Thurman, assistant vice president, Lomas & Nettleton: "The biggest

thing right now is refinancing," Thurman said. "We're really swamped. We have so many (with mortgages) at 14 percent and above looking for refinancing."

Thurman said adjustable rate mortgages have been offered "but they pick the fixed rates 99.9 percent of the time . . . Fifteen year mortgages are still going good. I keep hearing things should be on a downswing until May.

The rates right now are pretty good."

On one recent afternoon, Thurman said the majority of 30-year government insured mortgages were being offered at 10 percent and 1 1/2 points and 15- year mortgages were 9 1/2 percent with 1 3/4 points. Conventional fixed rates were a little higher "but not much. Why wouldn't they want that over variables?"

Peggy Zeigler, vice president, Heritage Savings & Loan: "The demand is

for fixed rates, especially the 15 year mortgage. Rates are great. Unless rates move up I think that anyone who qualifies will go for a fixed rate."

Ms. Zeigler gave examples of payments on a $50,000 mortgage based on interest rates recently. On a 15-year mortgage, principal and interest on the $50,000 at 9.75 percent interest would be $529 a month. On a 30-year mortgage, principal and interest on the same amount at 10 percent interest would be $438 a month.

She said that most people deciding on a 15 year mortgage think they are going to be in their house for a while. "With the 30 year mortgage, they want the absolute lowest payment or they're thinking they're going to be transferred or getting a bigger house."

"We think this spring is going to be a real blockbuster."

Phil McEwen, branch manager, United Virginia Mortgage Corp.: "Our January and February volume has been almost double that of last year. A great deal of that business is refinancing. But with rates in the range they are the real

estate business ought to be good this summer. I don't see any significant increase or drop in interest rates" in the near future, he said.

Mortgage financing has been "almost all fixed rate," McEwen said.

"Shorter terms and the biweekly are still popular for people wanting to shorten their loan term. Most go to the 15 year instead of the biweekly at the moment, he said.

Adjustable rate mortgages were recently being offered at 1-to-1 1/2 percent below fixed rates, McEwen said. "You just need a 2 percent to 3 percent spread between fixed and adjustables to see them get popular."

Terri Soloman, assistant vice president, Lincoln Savings & Loan Association: "Ninety percent of our business is either fixed rate (mortgages) and government (insured mortgages). There's very little interest in

adjustables right now.

"We're expecting a good spring. Currently we're below 9 7/8 percent on a

15 year fixed. So there is a lot of demand for that right now."

Ms. Soloman said there is also interest in 15 year mortgages since "the rates are down so they can qualify for more payment." Most buyers come in and say they want a fixed rate mortgage, she said. The advantages of a government insured mortgage, however, include assumability and qualifying ratios are higher than on conventioanl mortgages so the buyer can purchase more house.

One drawback on government insured mortgages is that $72,450 is the top loan amount for this area. "Conventionals can be done quicker and (the buyer) can borrow more money."

Illustrations/Photos: CHART AND DRAWING

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